

LNGStudy

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Attached please find the comments of Nucor Corporation in regard to the 2012 LNG Export Study. Thank you.

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United States Department of Energy
Office of Fossil Energy

2012 LNG Export Study

Request for Comments

Comments of Nucor Corporation

Nucor Corporation is the largest steel producer in the U.S. and also the largest recycler in North America. Our company employs over 20,000 teammates at 200 operating facilities. We produce a wide range of steel products including carbon and alloy steel – in bars, beams, sheet and plate; steel joists and joist girders; steel deck; fabricated concrete reinforcing steel; cold finished steel; steel fasteners; metal building systems; steel grating and expanded metal; and wire and wire mesh. As a company in an energy-intensive, trade-exposed (EITE) industry, we have serious concerns about the negative economic impact increased liquefied natural gas (LNG) exports could have on our industry and urge the U.S. Department of Energy (DOE) to gather more information before approving additional LNG exports to non-free trade (non-FTA) countries.

The 2012 LNG Export Study prepared by NERA Economic Consulting (NERA), *Macroeconomic Impacts of LNG Exports from the United States*, fails to provide the information required to determine whether or not exporting LNG to non-FTA countries is in the public interest. The study fails to evaluate effects of LNG exports on EITE industries. It also underestimates the amount of natural gas that will be used by the industrial sector in light of announced new investments, as well as the amount of natural gas currently being used in electricity generation. This inaccurate information means projections for future natural gas prices cited in the study are unreliable.

Impact of Increased LNG Exports on EITE Industries

In its study, NERA states, “Serious competitive impacts are likely to be confined to narrow segments of industry. About 10% of U.S. manufacturing, measured by value of shipments, has both energy expenditures greater than 5% of the value of its output and serious exposure to foreign competition.” The study identified iron and steel as one of these sectors, but went on to say “it was not possible to model impacts on each of the potentially affected sectors.” Although the NERA study dismissed the economic value of these sectors, many of them provide high-paying, highly skilled jobs. We believe it is important to know the exact extent of these “serious competitive impacts” on each of these energy-intensive, trade-exposed sectors prior to approving additional LNG exports.

Failure to Analyze Manufacturing Benefits

The most significant flaw in the NERA study is the failure to compare whether using domestic natural gas resources to grow the U.S. manufacturing sector would provide greater economic value than exporting LNG. We believe using domestic natural gas here at home can revitalize our manufacturing sector, generating a far more valuable export machine for our economy than exporting LNG alone. This scenario should also be studied further, prior to approving additional exports to non-FTA countries.

Abundant natural gas supplies are already resulting in new manufacturing investments in this country. Low natural gas prices and ample supply are a primary reason Nucor chose to locate a direct reduced iron (DRI) facility in Louisiana. This project, currently

under construction, is a \$750 million capital investment that is employing over 600 construction workers and will create 150 permanent, high-paying jobs. It is the first phase of a multi-phase project.

We are not alone. According to the organization Industrial Energy Consumers of America, U.S. manufacturing companies have announced \$80 billion in capital investments to build new or expand existing facilities. Our reliable, affordable supply of natural gas created by the shale gas revolution is spurring this new investment. America has an opportunity to experience a renaissance in manufacturing and benefit from the highly-skilled, well-paying jobs this sector creates, as well as the significant multiplier effect it has on other sectors of the economy. For example, according to the American Iron & Steel Institute, every one job in the steel industry supports seven jobs in the U.S. economy. A stronger U.S. manufacturing sector will result in the kind of job creation engine our economy needs to benefit the maximum number of our citizens. These broad benefits stand in stark contrast to the narrow group of beneficiaries found in the NERA study which were limited to LNG export terminal owners, natural gas producers and their shareholders.

In addition, inexpensive natural gas is helping existing manufacturing facilities by reducing operating costs. Nucor currently consumes 30 to 35 billion BTUs of natural gas in our steel mills. We also rely on large amounts of electricity for our operations, which increasingly is being generated by natural gas. The direct use of natural gas and

indirect use through electricity consumption by the industrial sector accounts for 40 percent of U.S. natural gas consumption.

NERA Relies on Flawed Data

The assumptions used in the NERA study for direct industrial natural gas use and use of natural gas in electricity generation are too low based on current and future trends. The figures used in the study do not account for the increased direct use of natural gas by the industrial sector that will occur when the \$80 billion investment in new projects and expansions are completed. The study also assumes natural gas accounts for 20 percent of electricity generation. In fact, today it accounts for 30 percent of generation – 50 percent higher than was stated in the NERA study. The trend will clearly continue in the future because of fuel switching from coal driven by low natural gas prices and Environmental Protection Agency (EPA) regulations that are phasing out the use of coal. Underestimating both direct and indirect natural gas use means the price predictions in the study are unreliable.

Unfair Trade Practices

It is important to recognize that every day, trade-exposed industries in the United States compete against countries that routinely violate trade laws. These trade law violations by foreign governments have resulted in the loss of millions of American manufacturing jobs. For example, despite apparent high natural gas prices abroad, many of the countries where our competitors are located subsidize the energy costs paid by their industries as part of an array of illegal trade subsidies they utilize. This is particularly

true of China, the world's largest steel producing country and the world's largest subsidizer. Subsidized energy allows foreign competitors to dump steel in our market below the actual costs of production. Exporting LNG to countries that routinely violate international trade laws could result in the perverse outcome of the U.S. exporting energy, foreign governments subsidizing the cost of this energy used by our competitors, and our competitors in turn dumping illegally subsidized products in our market. This is an outcome that would definitely not be in the public interest.

The Fallacy of Free & Open Trade

Supporters of unfettered LNG exports talk about the global energy market as though it is a virtuous example of the theory of free trade at work. That is absurd. Global energy reserves are mostly controlled and abused by either governments, like Russia, or cartels who have manipulated the price of energy to their benefit for decades. In addition, European governments have made the political decision to ban hydraulic fracturing, thereby leaving sizeable shale gas reserves in the ground that would make them less reliant on Russia for natural gas imports. As a result, the U.S. is expected to export LNG to Europe to save them from both their own political decision to forgo energy production and the energy price manipulation they experience from Russia. Supporters of LNG exports overlook the protectionist trade practices that are a reality of global energy markets, yet apply the label of protectionist to those in this country who are simply advocating for a pragmatic, deliberate approach to LNG exports.

Conclusion

As we have seen in recent years, making predictions about energy supply and prices is incredibly difficult. America's energy production today is very different from the scenarios experts were describing just five years ago. That is why the DOE must thoroughly evaluate the implications of LNG exports before approving additional exports to non-FTA countries. Unfortunately, this latest study does not supply all of the economic impact information required to make an informed decision.

We are still in an economic crisis and need to create tens of millions of jobs over the next three to five years. Natural gas finally gives us a major competitive advantage to help drive our global competitiveness. U.S. natural gas supplies are a game-changing opportunity and will create orders of magnitude more economic and jobs benefits than exporting it will ever do.

We have a unique opportunity to put our country on the road to long-term economic prosperity. But for that to happen we have to realize the interplay between energy and manufacturing policy. Failing to fully analyze the public interest impact of sending large amounts of our domestic natural gas resources overseas would put this economic opportunity and its benefits at risk.